

ECONOMICS

MONTHLY

Volume III Number 10

October, 1987

MONTHLY STATISTICAL HIGHLIGHTS

Real GNP grew by 3.8 percent during the third quarter.

Residential investment fell slightly during the third quarter, to an inflation adjusted \$196.7 billion.

During the first nine months of 1987, industrial production grew at a 6 percent annual rate.

Housing starts through September numbered 1.276 million units. That's down from the 1.422 million units of the corresponding period last year.

The average sales price of houses sold during the second quarter was \$126,800, up 13 percent over 1986.

Major banks lowered their prime lending rate to 9 percent on October 22.

THE NFPA FORECAST: A DIP LIKELY IN 1988

No doubt the crash of 1987 left many investors sour and embittered. Others saw the writing on the wall, liquidated and made healthy profits. But the full implications of what happened on Monday, October 19 will take time to sort out and perhaps, ultimately, be felt. For the time being, and despite Wall Street, the U.S. economy appears to be moving forward. In fact, the Federal Reserve Board response to "Black Monday" and the shift by many investors to bonds has lowered interest rates. This may act as an economic stimulant for the balance of this year. In short, it appears that the economy weathered the equity crisis reasonably well, emerging shaken but basically sound.

Stock Market Crash Maybe a Forewarning

The stock market crash may have simply been a response to overvalued equities, but it came on the heels of rising interest rates. The Fed responded by pumping money into the system and easing credit conditions. Interest rates have since declined.

When the market underwent its "major correction," however, a phenomenal amount of paper wealth evaporated. If the market fails to regain the lost ground, the effect, according to economic theory, will be a reduction in consumption and a shift to savings. When people feel wealthy they transform that

sentiment into spending. In fact, consumer spending has accounted for two-thirds of GNP growth during this economic expansion. Take away the wealth, or perception of wealth, and spending will decline. On the upside, people will tend to save more to compensate for the loss of other assets. This in turn should help finance the twin deficits.

The General Outlook: A Tough Call to Make

The crash has demonstrated that the U.S. economy is vulnerable as it enters the sixth year of the current growth cycle. Nowhere is that vulnerability more evident than in the twin deficits: budget and trade. While the federal budget deficit has fallen to \$148 billion in FY 87, the decline has apparently been insufficient to bolster investor confidence in financial markets. The trade deficit worsened, at least in nominal terms. During the first eight months of the year, the merchandise trade deficit was \$114.1 billion, \$5 billion more than the same period a year ago. The Administration and Congressional leaders began intensive negotiations to trim at least \$23 billion from the budget deficit in 1988. They must reach an agreement in order to reassure the financial markets that the deficit trend is clearly turned around.

Hard Choices Ahead

The outlook for 1988 depends heavily on the success (or failure) of U.S. policy-makers to resolve



budget and trade imbalances without throwing the economy into a recession. The choices will be hard and delicate, and will amount to a tug of war among exchange rates, inflation, and interest rates. The U.S. dollar will probably decline further to ease the balance of payments, boosting U.S. manufacturing. There is evidence of that happening already. But too severe a drop in the dollar could slow demand for goods in foreign economies. America's major trading partners need to spur their economies to compensate for the lower dollar. Unfortunately, they have been reluctant so far to align their domestic economic policies with perceived needs in the United States.

The prospects for inflation and interest rates are a mixed bag. The inflation rate may rise because imports will cost more. On the other hand, reduced consumer spending could have a tempering effect on prices.

Interest rates loom as the biggest and the most important question mark of all. It appears that the Federal Reserve Board will accommodate credit markets and may be willing to risk higher inflation to keep interest rates down. However, interest rates must be high enough to induce greater domestic savings and attract foreign capital. Foreign capital which for the past few years has pumped money into U.S. credit markets, may not be as readily available as a consequence of the decline in the world's equity markets. Unfortunately, there are no easy answers to these dilemmas and no clear vision on what the future holds.

For Wood Products, A Retreat

Most wood industry analysts view the performance of the financial markets as having an

impact on housing starts and the repair and remodeling (R&R) markets. That being the case, there now exists a greater probability that housing and R&R will suffer some setbacks in 1988. Most projections suggest housing starts will slow to the range of approximately 1.4 to 1.6 million units, after finishing this year at 1.65 million. The tremendous growth in repair and remodeling of the past few years will dissipate, at least temporarily, as consumers place more emphasis on savings.

As a result, NFPA projects an overall decline in domestic wood products demand of 10 to 15 percent, bringing softwood lumber consumption down to approximately 44 billion board feet, still a good year by historical standards. Moreover, export producers will benefit from a lower dollar and policy changes by major customer countries designed to lower trade surpluses with the United States. U.S. wood product exports should rise at least another 10 percent over this year's levels.

Canadian softwood imports have remained strong in volume terms, but have lost market share. They will account for approximately 29 percent of the U.S. market this year, a modest decline from 1986. Imports should remain fairly steady at that market share level in 1988.

1987 is a Hard Act to Follow

This year will mark a record year of shipments and earnings for many wood products producers. Consumption of softwood lumber should surpass the 50 billion board foot mark for the first time ever, and U.S. production should set new records in every region. This performance comes despite a reduction of new housing starts, the mainstay of wood products demand. New houses are bigger and are using more wood amenities. Single-family

starts, while down from last year, are still being constructed at a relatively brisk rate. Repair and remodeling is also booming. Wood products exports are up dramatically, benefiting from a lower dollar and aggressive export marketing.

The fundamentals that have made these trends possible will remain intact during 1988, but an overall slowdown in the U.S. economy will have an impact on the wood products sector. Interest rates are the major uncertainty. Fed policy, exchange rates, credit policies abroad and movement of foreign capital all affect the outcome. The NFPA forecast assumes stable but slightly higher interest rates. High vacancy rates in offices, tighter tax provisions and government spending cuts are also likely to affect private and public non-residential construction. Reduced consumer spending, probably as a consequence of recent events on Wall Street, will impact furniture markets.

More Uncertainty Than Usual

Economists will disagree more than usual about the 1988 outlook. Some are projecting a recession for one or two quarters. It looks almost certain that economic growth will slow next year. The events of October highlighted the precariousness of certain elements of the world's economies. The budget and trade deficits remain the predominating, and most frustrating, problems. Therefore, changes in fiscal and international policies will have immediate effects on the economy next year. Next year is also a presidential election year. The Administration will be sensitive to economic conditions and their impact on the election. Within that context, wood products producers can still expect a reasonably good year, even if turned down a notch.

Table I:
Demand will decline in 1988, but remain strong by historical standards.

THE 1988 FORECAST				
	1986	1987	1988	% Change
WOOD INDUSTRY INDICATORS:				
TOTAL HOUSING STARTS (000)	1,807	1,650	1,500	-9.1
Single-Family Housing Starts (000)	1,179	1,155	1,060	-8.2
Multi-Family Housing Starts (000)	628	495	440	-11.0
Mobile Home Shipments (000)	244	240	230	-4.2
Other Construction (Bil 1982 \$)	226	222	200	-10.0
Industrial Prod. Index (1977 = 100)	125	130	128	-1.5
FRB Furn. & Fix. Index (1977 = 100)	147	160	140	-12.5
OTHER INDICATORS:				
Change in Real GNP	2.5%	3.2%	1.8%	
Change in Consumer Prices	1.1%	4.5%	5.0%	
Effective Mortgage Rate (FHLBB)	10.2%	11.2%	11.5%	
PRODUCTION AND TRADE:				
	Softwood Lumber (MMBF)	Hardwood Lumber (MMBF)	Structural Panels (MMSF)	Particleboard & MDF (MMSF)
1986 U.S. Consumption	47,069	7,328	25,280	4,398
- Imports	14,238	347	838	187
+ Exports	1,877	498	596	172
= Shipments	34,708	7,479	25,038	4,383
+/- Inventory Change	142	(79)	600	-
= PRODUCTION	34,850	7,400	25,638	4,383
1987 ESTIMATED				
U.S. Consumption	50,100	7,700	27,100	4,745
- Imports	14,500	425	900	180
+ Exports	2,300	670	830	225
= Shipments	37,900	7,945	27,030	4,790
+/- Inventory Change	-	-	-	-
= PRODUCTION	37,900	7,945	27,030	4,790
1988 FORECAST				
U.S. Consumption	44,000	6,400	23,800	4,000
- Imports	12,700	325	900	110
+ Exports	2,500	725	950	250
= Shipments	33,800	6,800	23,850	4,140
+/- Inventory Change	-	-	-	-
= PRODUCTION	33,800	6,800	23,850	4,140

LUMBER PRODUCTION BY STATE

The following table details softwood and lumber production by state through 1986. Total U.S. lumber production rose to over 42.7 billion board feet, a new record. According to figures released by the Bureau of Labor Statistics (BLS),

productivity in the sawmilling industry improved by 11 percent in 1986, as measured by output per employee hour. Productivity gains in the wood products industry during the past few years have exceeded those for U.S. manufacturing overall.

Table II:
U.S. lumber
production hit an
all-time high in
1986.

U.S. LUMBER PRODUCTION BY STATE 1984 - 1986										
	1986 RANK	TOTAL LUMBER			SOFTWOODS			HARDWOODS		
		1986	1985	1984	1986	1985	1984	1986	1985	1984
TOTAL U.S.		42,250	37,352	37,436	34,850	31,321	31,174	7,400	6,031	6,262
Oregon	1	8,240	7,252	7,243	8,199	7,211	7,202	41	41	41
California	2	4,839	4,183	3,906	4,815	4,168	3,891	24	15	15
Washington	3	4,312	3,563	3,841	4,132	3,419	3,697	180	144	144
Georgia	4	2,279	1,987	2,072	2,050	1,822	1,900	229	165	172
Alabama	5	2,145	1,873	1,772	1,827	1,539	1,439	318	334	333
Idaho	6	1,876	1,676	1,687	1,876	1,676	1,686	N	N	1
Mississippi	7	1,814	1,659	1,655	1,429	1,311	1,317	385	348	338
Montana	8	1,563	1,445	1,387	1,563	1,445	1,387	N	N	N
North Carolina	9	1,539	1,467	1,389	1,103	1,101	1,006	436	366	383
South Carolina	10	1,438	1,219	1,212	1,145	1,045	1,020	293	174	192
Arkansas	11	1,391	1,428	1,453	1,147	1,192	1,248	244	236	205
Virginia	12	1,072	842	852	540	424	431	532	418	421
Texas	13	1,065	1,038	1,033	963	908	921	102	130	112
Maine	14	677	867	863	602	760	755	75	107	108
Louisiana	15	669	554	604	512	439	450	157	115	154
Tennessee	16	645	482	507	138	129	120	507	353	387
Florida	17	640	665	656	618	638	624	22	27	32
Pennsylvania	18	598	428	437	14	16	15	584	412	422
Indiana	19	413	415	399	11	4	8	402	411	391
Kentucky	20	413	249	281	12	3	8	401	246	273
Arizona	21	409	361	385	409	361	384	N	N	1
Wisconsin	22	399	398	385	42	80	83	357	318	302
West Virginia	23	362	338	389	5	5	5	357	333	384
Missouri	24	324	199	217	36	14	13	288	185	204
New York	25	305	302	346	49	76	93	256	226	253
Ohio	26	275	254	242	N	1	1	275	253	241
Michigan	27	269	219	246	28	33	26	241	186	220
Oklahoma	28	243	219	235	189	173	183	54	46	52
South Dakota	29	239	219	192	239	219	192	N	N	N
Wyoming	30	239	182	174	239	182	173	N	N	1
New Mexico	31	230	185	172	230	185	172	N	N	N
Minnesota	32	206	162	162	57	67	60	149	95	102
Del., Md.	33	163	137	149	67	68	63	96	69	86
New Hampshire	34	157	171	146	124	141	121	33	30	25
Colorado	35	141	129	134	132	129	134	9	N	N
Vermont	36	138	113	101	59	67	64	79	46	37
Alaska, Hawaii	37	128	136	155	128	136	155	N	N	N
Conn., Rhode Is	38	93	62	58	4	12	11	89	50	47
Illinois	39	84	64	73	N	N	N	84	64	73
Nevada, Utah	40	81	73	67	81	73	67	N	N	N
Massachusetts	41	61	78	95	34	44	45	27	34	50
Iowa	42	52	31	27	N	1	N	52	30	27
Kansas, Neb.	43	16	20	26	N	1	1	16	19	25
New Jersey	44	8	7	11	2	1	1	6	6	10

Source: Dept. of Commerce; Western Wood Products Association; National Forest Products Association

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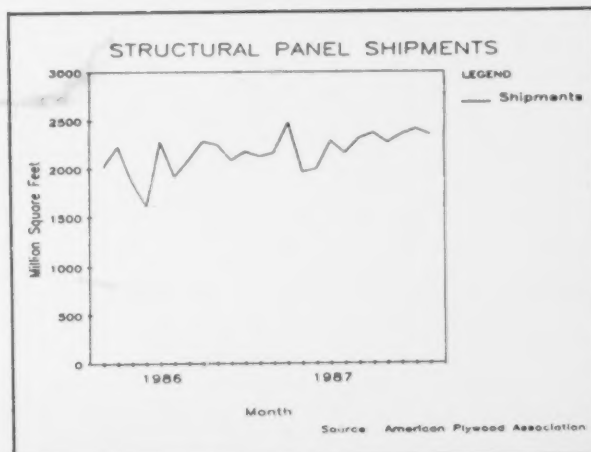
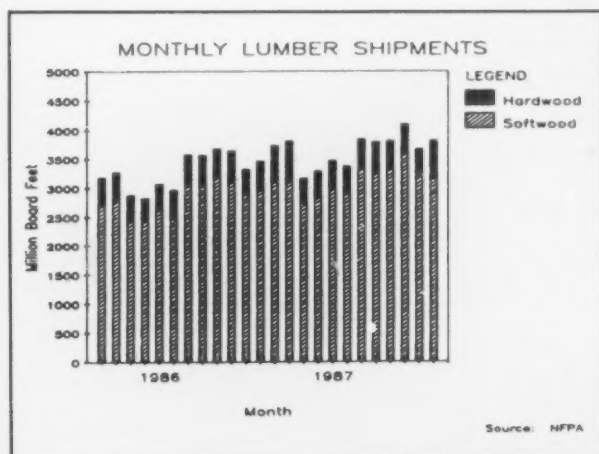
ECONOMICS MONTHLY

MONTHLY STATISTICAL SUPPLEMENT

Issued: October, 1987

ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION

	AUGUST, 1987					JULY REVISIONS		
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks	Production	Shipments	Orders Received
	(Million Board Feet)					(Million Board Feet)		
SOFTWOOD LUMBER								
Southern Pine Region	995	1005	1064	848	1,950	1,101	1090	869
Douglas Fir Region	835	845	896	746	814	824	813	804
Western Pine Region	994	999	1,029	581	1,283	928	947	891
California Redwood Region	173	187	183	101	403	199	202	205
Other Softwoods	112	113	119	270	305	156	156	141
TOTAL SOFTWOODS	3,109	3,149	3,291	2,546	4,755	3,208	3,208	2,910
% Change - July 1987	-1.8%	-0.5%	14.6%	5.9%	-3.5%			
% Change - August 1986	2.6%	7.6%	13.1%	24.1%	2.7%			
HARDWOOD LUMBER								
Southern Hardwood Region	295	310	321	307	648	219	235	221
Appalachian Hardwood Reg.	67	73	74	*	*	66	53	68
Other Hardwoods	281	298	307	273	576	202	204	205
TOTAL HARDWOODS	643	681	702	580	1,224	487	492	494
% Change - July 1987	1.6%	6.7%	9.3%	3.6%	-3.0%			
% Change - August 1986	1.4%	4.4%	9.0%	26.7%	-30.6%			
TOTAL LUMBER	3,752	3,830	3,993	3,152	5,979	3,695	3,700	3,404
% Change - July 1987	-1.2%	0.7%	13.6%	5.5%	-3.4%			
% Change - August 1986	2.4%	7.0%	12.4%	25.6%	-6.5%			
* Included in Other Hardwoods								
FLOORING								
	(Thousand Feet)					(Thousand Feet)		
Oak Flooring (Bd. Ft.)	NA	15,846	NA	13,906	6,588	NA	14,533	NA
Maple Flooring (Sq. Ft.)	1,100	1,215	974	3,961	1,619	1,001	1,320	1,449
STRUCTURAL PANELS (Sq. Ft.)	2,303,626	2,347,846	2,499,526	929,857	367,354	2,409,071	2,408,015	2,349,408
% Change - July 1987	-4.4%	-2.5%	6.4%	18.2%	-1.0%			
% Change - August 1986	8.7%	10.8%	14.7%	10.9%	2.0%			



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YEAR-TO-DATE INDICATORS

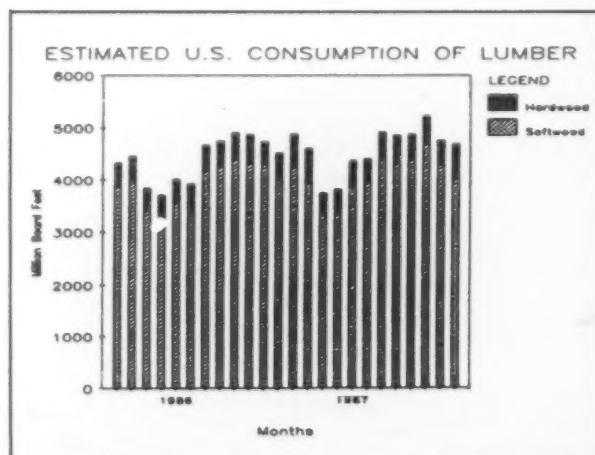
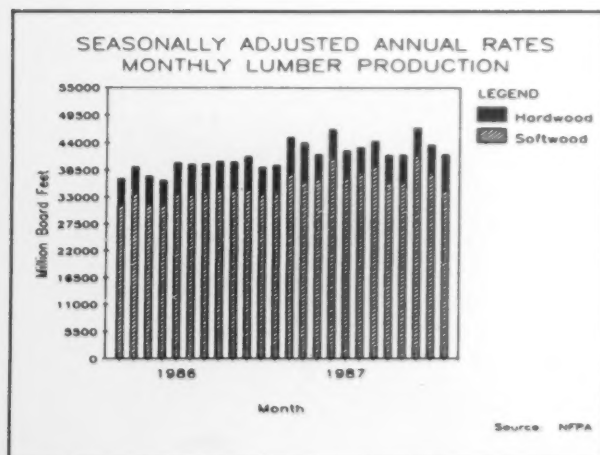
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	8 mo. '87	8 mo. '86	8 mo. '87	8 mo. '86	8 mo. '87	7 mo. '86
	(Million Board Feet)					
TOTAL LUMBER	30,161	7.2%	30,754	9.0%	31,182	9.9%
TOTAL SOFTWOOD	25,380	10.6%	25,535	10.7%	25,864	11.7%
TOTAL HARDWOOD	4,781	-8.0%	5,219	1.3%	5,318	1.9%
	(Million Square Feet)					
STRUCTURAL PANELS	18,527	7.5%	18,493	7.6%	18,785	9.9%

SEASONALLY ADJUSTED ANNUAL RATES

LUMBER REGION	PRODUCTION			SHIPMENTS		
	August '87	---% Change From---	August '86	August '87	---% Change From---	August '86
	July '87	August '86	July '87	August '86	July '87	August '86
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	11,318	-10.7%	0.5%	11,847	-5.1%	4.8%
Douglas Fir	9,612	-7.0%	6.8%	9,523	-7.6%	14.8%
Western Pine	10,431	-5.5%	2.4%	10,647	-5.2%	5.7%
Calif. Redwood	1,899	-22.5%	-3.4%	2,117	-5.8%	2.7%
Other Softwoods	1,227	-9.3%	2.8%	1,253	-7.7%	7.6%
TOTAL SOFTWOODS	34,486	-8.9%	2.6%	35,386	-6.0%	7.6%
TOTAL HARDWOODS	7,253	-2.7%	1.4%	7,796	-2.2%	4.4%
TOTAL LUMBER	41,740	-7.9%	2.4%	43,182	-5.3%	7.0%

DOMESTIC LUMBER CONSUMPTION

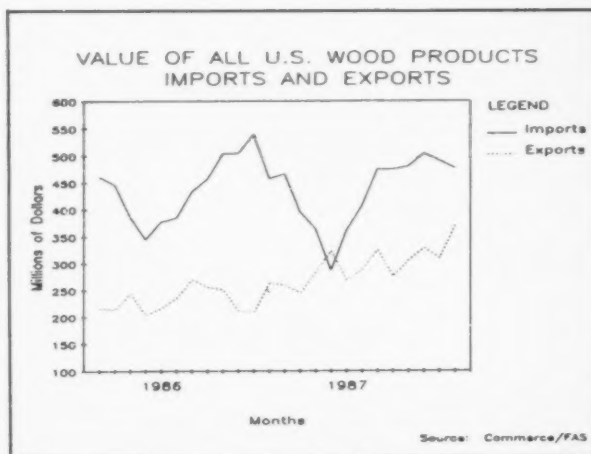
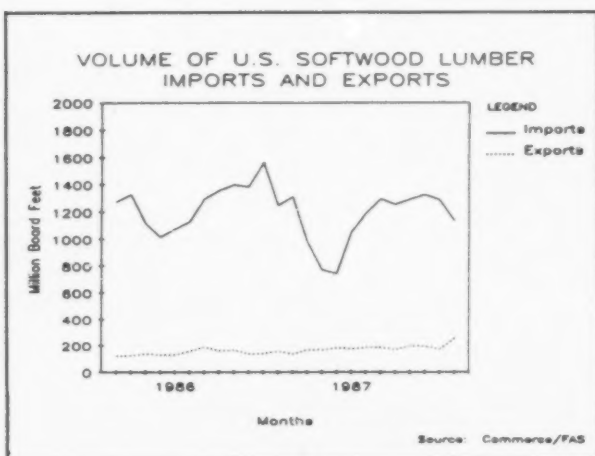
	CURRENT			YEAR-TO-DATE	
	Latest Month Available	---% Change From---	Latest Period Available	Latest Period Available	% Change From
	August '87	July '87	August '86	8 mo. '87	8 mo. '86
	(Million Board Feet)				
Total Consumption	4,699	-4.1%	1.2%	38,907	4.2%
Softwood Consumption	4,033	-5.8%	0.4%	33,826	4.8%
Hardwood Consumption	667	7.5%	6.3%	5,081	0.3%



INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE			
		Aug '87	8 mo. 1987	% Change From July '87	% Change From 8 mo. 1986	Aug '87	8 mo. 1987	% Change From July '87	% Change From 8 mo. 1986
EXPORTS									
SOFTWOOD LUMBER	MMBF	254.4	1,543.5	46.4%	26.2%	75,240	533,887	25.7%	30.7%
To Canada	MMBF	43.2	305.4	-1.7%	24.3%	10,199	74,369	-16.0%	22.8%
SOFTWOOD LOGS	MMBF	415.6	2,625.3	23.6%	17.9%	164,745	934,934	31.1%	29.3%
SOFTWOOD PLYWOOD	MMSF 3/8"	36.9	502.1	-39.5%	38.9%	9,342	111,547	-25.6%	42.8%
HARDWOOD LUMBER	MMBF	66.7	445.9	13.7%	38.3%	38,736	243,806	16.5%	30.2%
HARDWOOD LOGS	MMBF	4.9	97.4	-28.0%	30.1%	3,691	79,524	-40.3%	15.7%
HARDWOOD VENEER	MMSFsurf	0.0	780.1	-100.0%	21.8%	8,969	71,475	24.5%	41.1%
PARTICLEBOARD	MMSF 3/4"	18.9	150.3	-4.3%	42.3%	4,323	33,618	-5.2%	58.9%
ALL OTHER		NA	NA	NA	NA	57,299	408,806	6.3%	23.5%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	369,731	2,472,811	19.3%	29.4%
IMPORTS									
SOFTWOOD LUMBER	MMBF	1,138.0	9,834.4	-11.6%	-5.8%	249,998	2,023,024	-9.9%	-7.2%
From Canada	MMBF	1,125.7	9,745.1	-11.8%	-5.8%	247,289	1,999,400	-9.9%	-7.4%
SOFTWOOD LOGS	MMBF	7.3	26.2	11.4%	-29.9%	1,423	6,830	28.0%	69.3%
SOFTWOOD PLYWOOD	MMSF 3/8"	10.7	87.8	-18.9%	-2.5%	2,659	23,686	-35.8%	0.4%
HARDWOOD LUMBER	MMBF	50.7	302.3	28.9%	27.5%	23,213	134,907	27.5%	45.6%
HARDWOOD LOGS	MMBF	0.9	10.0	24.1%	-47.5%	308	2,076	-20.5%	-27.7%
HARDWOOD VENEER	MMSFsurf	116.7	1,130.8	-17.1%	5.9%	11,263	91,443	-14.8%	21.6%
HARDWOOD PLYWOOD	MMSFsurf	277.2	2,604.5	-19.0%	-0.1%	61,173	394,605	15.3%	21.4%
HARDBOARD	MMSF 1/8"	74.7	571.8	-7.6%	-7.6%	6,699	43,824	0.6%	11.5%
PARTICLEBOARD	MSF 3/4"	106.7	904.2	-8.3%	26.7%	12,569	91,505	5.1%	-5.1%
ALL OTHER		NA	NA	NA	NA	100,246	821,744	1.6%	3.6%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	476,395	3,666,891	-2.9%	0.3%

Note: Volume total is not possible because the products are in different units of measure.
Note: Particleboard imports include OSB/Waferboard.



VALUE OF NEW CONSTRUCTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	---% Change From---		Latest Period Available	% Change From
	August '87	July '87	August '86	8 mo. '87	8 mo. '86
	(Billions of Dollars)				
VALUE OF ALL NEW CONSTRUCTION PUT-IN-PLACE	38.4	6.1%	5.8%	204.4	-16.5%
Private	30.9	7.1%	7.7%	165.7	-16.8%
Residential	19.5	5.9%	12.7%	103.7	-8.6%
Nonresidential & Other	11.4	9.3%	0.0%	62.1	-27.5%
Public	7.6	3.5%	0.0%	38.7	-15.3%

HOUSING STARTS

	August '87	July '87	August '86	8 mo. '87	8 mo. '86
	(Thousands of Units)				
NEW HOUSING UNITS STARTED					
Total Private & Public	144.7	-5.2%	-11.7%	919.7	-27.5%
New Private Starts	144.6	-5.1%	-11.7%	918.4	-27.6%
Seas. Adj. Annual Rate	1,598.0	0.0%	-11.2%		
One-Family Housing Starts	101.1	-9.3%	-7.6%	659.5	-20.2%
Proportion of Total	69.87%			71.71%	
	(Number of Units)				
SHIPMENTS OF MOBILE HOMES	22,000.0	4.8%	1.9%	84,700	-49.2%

INDUSTRY EMPLOYMENT

	August '87	---% Change From---	
	August '87	July '87	August '86
	(Thousands of Employees)		
TOTAL EMPLOYMENT (Seasonally Adj.)			
All Industries	102,154	0.2%	2.4%
All Manufacturing Industries	19,221	1.0%	1.5%
Lumber and Wood Products	763	0.5%	7.1%
Furniture and Fixtures	516	2.4%	3.4%

